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Adairs 2023 AGM report

ASX code	ADH
Meeting date	Friday, 24 November 2023
Type of meeting	Physical (webcast)
Monitor	Mike Robey (attending)
Pre AGM-meeting	With Chair Brett Chenoweth just prior to the AGM

Meeting Statistics

Number of holdings represented by ASA	28
Number of shares represented by ASA	561,614
Value of shares represented by ASA	$0.834m
Total number attending meeting	TBA
Market capitalisation	$254m
ASA open proxies voted	ASA voted in favour of all the resolutions

The Chairman's and CEO's speeches were published on the ASX in advance of the AGM and can be found here. The presentation delivered by the CEO is to be found here.

This was a boutique AGM with relatively few shareholders attending in person, and, unusually for the current times, had no Welcome to Country message.

The themes of the presentations were:

- The current interest rate environment has damaged retail consumer confidence, which is reflected in the like-for-like sales performance (although absolute sales were up 10% year-on-year (YOY) due to the inclusion of the newly acquired "Focus on Furniture" sales). This is not only for Adairs but for the whole sector.
- The implementation of their own in-house warehouse management system is on plan, after early termination of a much higher than planned contract cost with DHL.
- There is an increased focus on reducing the cost of doing business, (which was up 15% YOY).
- The first 21 weeks of sales in the current FY 2024 are 9% down YOY in all businesses other than Mocka (the flat pack new home builders' brand), so the continued depressed environment continues.

Therefore, no market guidance was given other than to state that it is challenging. The point was made that the retail expansion and refresh strategy will pay off when interest rates settle.

Questions had been received in advance of this non-hybrid meeting on:

- Diversity. Will the board commit to the 40:40:20 target for women: men: either/other? Answer: We already have 33% of the board identify as women, and senior executive women already account for 40%, with senior management at a creditable 60%.
- Borrowings decreased but cost of debt increased, why? Answer: a timing issue with the accounts. All the debt was entered in the latter six months.
- Audit fees increased 19%. Why? Answer: Inclusion of 3 new elements, a) the new business unit, Focus on Furniture, b) Adairs NZ required a separate audit, for the first time and c) additional IT projects.

ASA was the only questioner at the live meeting, commenting on:

- the strong preference for true hybrid meetings and not merely a webcast, (taken on notice by the chairman)
- asked for some background to the move in-house of the national warehouse distribution, away from DHL, a global warehouse management specialist, due to cost blowouts. Answer: DHL is a specialist at moving similar sized pallets of products, such as for supermarkets and the system is unsuited to a retail business with many SKUs ranging from single item pillowslips to king sized beds. Adairs used retail distribution consultants in the process of determining a way out of the high-cost DHL process and concluded that it would bring it all in-house. The status at present is that this is well underway and already realising much lower costs.
- In the remuneration structure, Adairs had in 2021 moved away from fair-value performance rights for the CEO long term variable pay, to market-value determined rights, using total shareholder return (TSR) as a performance hurdle, but in 2022 replaced the TSR measure with earnings per share (EPS). We asked that they reconsider re-introducing relative and not absolute TSR in addition to EPS, using peer retail companies in the comparator group. The chairman took this on notice.

The remuneration-related resolutions and the re-election of the founder Mr McLean only received around 90% support, which indicated that a major shareholder was unhappy. Our enquiry after the meeting on this revealed that this was due to a large Asian Investment fund, which was caught off guard by the reduced dividend in the past year (from 18c in 2022 to 8c in 2023).